

SECOND SUPPLEMENTARY PROSPECTUS

COUGAR ENERGY LIMITED

[ACN 060 111 784]
("the Company")

IMPORTANT NOTICE

This Second Supplementary Prospectus is dated 15 October 2010 and was lodged with ASIC on that date. This Second Supplementary Prospectus supplements:

- (a) the prospectus dated 1 September 2010 issued by the Company and lodged with ASIC on that date ("**Prospectus**"); and
- (b) the first supplementary prospectus dated 15 September 2010 issued by the Company and lodged with ASIC on that date ("**First Supplementary Prospectus**").

This Second Supplementary Prospectus must be read in conjunction with the Prospectus and the First Supplementary Prospectus.

ASIC and the ASX take no responsibility for the contents of the Prospectus, the First Supplementary Prospectus or this Second Supplementary Prospectus.

Terms used in this Second Supplementary Prospectus have the same meaning as in the Prospectus unless otherwise defined or the contrary intention appears.

REASON FOR SECOND SUPPLEMENTARY PROSPECTUS

The Company is issuing this Second Supplementary Prospectus in light of the fact that:

- (a) there have been developments which affect the accuracy of information set out in the Prospectus and the First Supplementary Prospectus; and
- (b) the Prospectus contains a typographical error.

At the date of this Second Supplementary Prospectus, the Company has not received any applications for Shares pursuant to the Offer accordingly, it is not necessary for the Company to offer applicants the option to withdraw their applications.

Any new applications should be made using the Replacement Application Form which is attached to or accompanies this Second Supplementary Prospectus. However, as noted in the Prospectus, the Directors reserve the right to issue Shares pursuant to the Offer at their absolute discretion. Accordingly, please do not submit a Replacement Application Form unless directed to do so by the Directors.

If an application using the Application Form which accompanied or formed part of the Prospectus or the First Supplementary Prospectus is received after the lodgement of this Second Supplementary Prospectus, the Application Form and application monies will be returned and the applicant may be invited to reapply using the Replacement Application Form which is attached to or accompanies this Second Supplementary Prospectus. Investors should ensure they use the Replacement Application Form to avoid delays which may result from an old Application Form being returned.

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NEW DEVELOPMENTS

New Closing Date

It is noted in the "Indicative Timetable" at page 4 of the Prospectus that the indicative Closing Date is 30 November 2010.

The Directors have resolved to extend the Closing Date to 31 March 2011. The Company reserves the right to further extend the Closing Date up to the maximum permitted period of thirteen months after the date of the Prospectus, or close the offer early, without notice.

Updated Corporate Directory

In accordance with the Company's announcement to the ASX on 22 September 2010, Ms. Sarah Christensen has been appointed to the Board of the Company.

Ms. Christensen's appointment - which follows the vacancy left after the sudden passing of Dr. Michael Dalling (refer to the Company's announcement to the ASX dated 9 September 2010) - will be subject to ratification by shareholders at the Company's next Annual General Meeting which is scheduled to be held on 26 November 2010.

Update number of Shares on Issue

It is noted at Section 5.1(a) of the Prospectus that the Company's existing fully paid ordinary Shares total 936,903,218.

The Company has issued Shares since the date of the Prospectus in accordance with the fundraising initiatives described below. Consequently, at the date of this Second Supplementary Prospectus a total of 946,410,309 Shares are on issue. If the Offer is fully subscribed there will be a total of 946,411,309 Shares on issue (excluding any other Shares that may be issued by the Company during the currency of the Prospectus).

Correcting Typographical Error – Note 4(1) to the Consolidated Pro-Forma Balance Sheet for the year ended 30 June 2010 ("Balance Sheet")

The Company has become aware that a formatting error in Note 4(1) to the Balance Sheet set out in Section 5.2 of the Prospectus has resulted in the omission or part-deletion of several words (italicised and underlined in the below replacement text).

Accordingly, this Note 4(1) of the Prospectus is replaced with the following text:

"Going Concern: The Company's forecast working capital requirements for the next 12 months exceeds the Company's current cash position. This indicates a material uncertainty that may cast doubt over the Company's ability to continue as a going concern, unless additional capital can be raised."

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Financing Requirements

It is noted in Section 6.1(a) of the Prospectus that as at the date of the Prospectus the Company had approximately \$1.3 million in cash at bank (not including cash deposits pledged as security for bank guarantee and credit card facilities). As at the date of this Second Supplementary Prospectus the Company's cash reserves have increased from \$1.3 million to approximately \$1.59 million. The cash reserves do not include the balance of funds due under the initial \$1 million share placement to Limitedless International Holdings Pty Ltd ("**LIH**") and \$150,000 of the \$250,000 due under advances requested under the YA Facility, as described below.

It is noted in Section 6.1(a) of the Prospectus that the Company had proposed raising necessary funding through a number of potential sources including via the YA Facility, through placements and by undertaking a share purchase plan.

As disclosed in announcements made to the ASX since the lodgement of the Prospectus, the Company has raised \$2,398,560 (before transaction costs) which is comprised of:

- (a) \$1,148,560 (before transaction costs) raised through accessing all of the special advances available under the YA Facility;
- (b) \$250,000 (before transaction costs) raised through requesting advances under the YA Facility;
- (c) \$1,000,000 raised pursuant to a share placement to LIH, an Australian based 100% owned subsidiary of Shanghai Limitedless Investment Group Co. Ltd, the terms of which were announced on 1 October 2010. As at the date of this Second Supplementary Prospectus the Company has received \$100,000 with the balance of funds (\$900,000) due by the end of October 2010.

In light of the funds raised, the Company does not consider it necessary to proceed with the proposed share purchase plan at this point in time.

The Company is of the view that it will have sufficient funds available to meet anticipated liabilities as and when they arise including the expenses likely to be associated with complying with the two further Environmental Evaluation notices described below. In addition to available cash, the Company will continue to access further funding under the YA Facility subject to such funding being available in accordance with the terms of the YA Facility. Furthermore, as announced to the ASX on 1 October 2010, LIH will take up a further placement of Shares to the value of \$1,000,000 at a price of \$0.035 (3.5 cents) per Share upon and subject to the Company and LIH entering into a "Definitive Cooperation Agreement" setting out the terms upon which they will jointly develop and operate UCG projects in the People's Republic of China. It is proposed that the parties enter into the "Definitive Cooperation Agreement" by 31 January 2011.

The Company will continue to assess its funding requirements on an ongoing basis.

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Environmental Evaluation

As disclosed in the Company's announcements to the ASX on 17 and 22 September 2010, the Company has received two further Environmental Evaluation notices from DERM. The potential service of these notices was foreshadowed in Section 6.1(b) of the Prospectus.

The two Environmental Evaluation notices require the Company to undertake the following further works:

- a) provision of data and analysis associated with the possible causes of the inner casing break in production well P4 and ash blockage of wells P1 and P4 and, where appropriate, the preparation of contingency and mitigations plans and incident response procedures;
- b) installation of a minimum of 4 additional monitoring bores and provision of data and analysis from the groundwater monitoring network;
- c) undertake a geological and hydrogeological investigation in relation to the aquifer/s with the potential to be affected if "groundwater contamination" were to emanate from the Company's Kingaroy pilot plant;
- d) conduct a similar investigation in relation to the aquifer/s in the immediate vicinity of the Kingaroy pilot plant with the potential to be affected by "groundwater contamination"; and
- e) undertake an environmental risk assessment of all aspects of the UCG operation and developing a risk management plan.

DERM requested that this work be completed by 10 December 2010.

Following preliminary consultation with external hydrogeological consultants, the Company has determined that the environmental review process will extend beyond the 3 month "care and maintenance" period estimated by the Company in Section 6.1(a) of the Prospectus, and it is now anticipated that the review process will not be completed until early in the new year. The Company has also formed the view that the scope of the works required to properly respond to the notices is greater than originally anticipated. The Company has adjusted its budgeted funding requirements to accommodate the anticipated additional costs associated with complying with the notices.

UPDATED INFORMATION

The Company has made the following announcements (continuous disclosure notices) to ASX since lodging the First Supplementary Prospectus. The following list should be read in conjunction with the list appearing in Section 8 of the Prospectus, as amended by the First Supplementary Prospectus.

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Any person may request, and the Company will provide free of charge, a copy of any of the below announcements during the application period of the Prospectus:

<i>Doc date</i>	<i>Headline</i>
15/10/2010	Appendix 3B
05/10/2010	Funding update
04/10/2010	Change in substantial holding
04/10/2010	Appendix 3Y
01/10/2010	Boardroom Radio Broadcast
01/10/2010	Strategic UCG Alliance with Chinese Investment Group
01/10/2010	Annual Report and Notice of AGM
30/09/2010	Potential strategic alliance
27/09/2010	Letter to Queensland State Members of Parliament
23/09/2010	Initial Director's Interest Notice
22/09/2010	Appointment of Director / Environmental Evaluation Update
17/09/2010	Progress on fund raising
17/09/2010	Change in substantial holding
17/09/2010	Appendix 3Y
17/09/2010	Appendix 3B
17/09/2010	Further environmental evaluation notices from DERM
15/09/2010	Appendix 3Z
15/09/2010	Appendix 3Y
15/09/2010	Change in substantial holding
15/09/2010	Supplementary Prospectus

DIRECTORS' CONSENT

Each of the Directors of the Company has consented to the lodgement of this Second Supplementary Prospectus with ASIC.

Signed for and on behalf of the Company:



Date: 15 October 2010

Dr. Len Walker
Director